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NRG Energy, Inc.
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Washington, DC 20006

OPEN MEETING AGENDA ITEM

April 7, 2022

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Re: Comment of NRG Energy, Inc. TEP PPFAC Adjuster (No. E-01933A-19-0028)

Dear Chairwoman Lea Márquez Peterson and Commissioners:

The Commission is set to evaluate the annual Purchased Power and Fuel Adjustment Clause ("PPFAC") of Tucson Electric Power ("TEP") at its Open Meeting on April 12, 2022. The PPFAC is a "tracker" that allows TEP to do something that nearly any other business is not permitted to do with respect to their customers: surcharge them if the prices those customers already paid for service in the course of the previous year are inadequate to cover the utility's energy costs. In doing so, the PPFAC allows the utility to avoid any impacts to its own shareholders for over-running its previous cost estimates. Instead, the risk of the volatile energy markets is placed squarely on the shoulders of TEP customers. This year's PPFAC adjustment is particularly notable in this case because of its substantial size, adding upwards of $12/month to the average residential customer bill, under the Commission Staff's proposal.

It does not have to be this way. The Commission should be aware that alternatives exist to ensure customers have options to have a truly fixed-rate product that is not subject to retroactive surcharges. Specifically, NRG's subsidiary Green Mountain Energy ("GME") has proposed to offer TEP customers fixed-rate, term contracts that protect customers from the volatility in the energy markets.[1] When wholesale gas and power prices fluctuate, it is GME's managers and shareholders, and not our customers, that would shoulder that risk and bear the consequences if the rate we are contractually bound to honor does not recover our business' actual costs. Simply put, the regulated competition that is at the heart of Arizona's Energy Competition Act, A.R.S. 40-202 *et. seq.*, under which GME has sought a license to operate, achieves what should be a goal of the Commission: to ensure that energy suppliers, and not their customers, are in the position of managing the risk of volatile energy markets and of bearing the consequences of doing that poorly.

TEP argues that it must raise customer rates by roughly 10% via the PPFAC adjuster because of unprecedented volatility in the price of natural gas and power in the wholesale market. TEP explains that after its PPFAC was reset in 2019, "summer market conditions unexpectedly reversed course and there were periods of exponentially higher prices. The volatile market

[1] *See* Application of Green Mountain Energy for a Certificate of Convenience and Necessity for Electric Generation Service, Docket No. E-21160A-21-0279.

ACC - Docket Control - Received 4/7/2022 10:00 AM
ACC - Docket Control - Docketed 4/7/2022 10:14 AM

resulted in significant under-collections and a higher forward component in 2020."[2] TEP goes on to explain that wholesale power prices at the Palo Verde Hub in June and July of 2021 were up 179% compared to the year prior and that natural gas prices at the San Juan Basin increased, "by an average of 88% between December 2020 and December 2021."[3]

TEP has not bothered to explain whether its procurement and trading strategy could have shielded it from these increases. Could TEP have better hedged its portfolio? What was the forward shape of its procurements? Did it communicate or incentivize to customers that they should conserve energy during times when the utility was exposed to especially high spot prices at wholesale? If TEP had any financial stake in the outcome of its fuel and power procurement decisions, what might it have done differently?

Unfortunately, those considerations do not automatically occur when the utility faces no financial incentive to manage its costs, and are otherwise difficult to answer counterfactually. Indeed, the Staff memorandum providing guidance to the Commission on this matter does not even include a discussion of these considerations. The only issue staff raises is the period of time consumers should pay for TEP's extraordinary costs—not whether consumers should pay for all of them, which seems all but a foregone conclusion.

Unfortunately, TEP's situation is not novel or isolated. A recent study by the firm Intelometry compared residential customer outcomes after severe weather in February 2021 caused wholesale gas and power prices to spike in 15 states. The study clearly illustrates how monopoly utility customers fared worse in the face of this dramatic wholesale price volatility.[4] As the study explained:

> Unlike the competitive retail market, where fixed-rate contracts prevent the subsequent collection of unexpected losses, utilities have applied for and are expected to receive cost recovery for all their losses (sometimes even including a profit margin). The consequence is that, with few or no exceptions, utility-monopolies will experience essentially no financial consequence due to the winter storm's fuel price shocks.[5]

Intelometry quantifies the staggering impact that monopoly utilities passing through wholesale power and gas costs will have on their ratepayers, comparing that outcome to the costs customers of competitive providers will pay. Unsurprisingly, ratepayers made to act as an insurance policy for their monopoly's wholesale cost exposure pay a steep price when wholesale fuel and power prices spike. The study found that 67 monopoly gas and electric utilities have proposed to pass on ***$14.5 billion*** to their ratepayers whereby "[t]hese utility-monopolies seek not only to recoup losses at their customers' expense, but, in at least some cases, also to charge their rate of return on the losses until they have been recovered, thereby transforming what in a competitive industry would constitute massive financial losses into a

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[2] Request for Approval of Tucson Electric Power Company's PPFAC Rate Adjustment Decision No. 77856, Docket No. E-01933A-19-0028, February 1, 2022, at 2.
[3] *Id.*
[4] See *Beyond Texas, Evaluating Customer Exposure to Energy Price Spikes: A Case Study of Winter Storm Uri, February 2021* https://www.nrg.com/assets/documents/energy-policy/Energy_Choice_Protecting_Customers.pdf
[5] *Id.* at page 6.

profit center."[6] Likewise, in this proceeding, TEP would be paid a substantial carrying cost—in other words, a profit margin—on these costs until consumers have fully repaid them.

The impact on individual customers of this monopoly-protecting pass-through mechanism is real and significant. The table below quantifies the per-customer impact of the 2021 winter storm on customers of competitive suppliers in Texas when compared with gas and power monopoly customers in Texas and neighboring states.

Table 3: Average Uri Costs Incurred per Residential Customer

Entity Type	Average Impact of Winter Storm Uri per Residential Customer
Power Competitive Suppliers - Texas	$86
Power Utility Monopolies - Texas	$373
Gas Utility Monopolies - Texas	$450
Power Utility-Monopolies - All Uri Impacted States	$326
Gas Utility-Monopolies - All Uri Impacted States	$381

In short, what the Commission is witnessing here is a microcosm of what has been observed more broadly: Competition puts fuel procurement risk on the back of suppliers, where it belongs. As described above, this arrangement is a real benefit to customers of competitive providers. This benefit will continue to grow as fuel volatility increases. A marketplace without competition, meanwhile, turns ratepayers into *the utility's* shield against high costs in the wholesale market.

When evaluating TEP's proposed PPFAC increase, the Commission should not view this situation in isolation. It should keep in mind that other proceedings before it, like GME's certificate application, offer an opportunity whereby a supplier would carry this risk itself, thus protecting Arizona consumers from the type of rate shock that will flow from the unfortunate increase TEP has proposed in this proceeding.

Travis Kavulla
Vice President, Regulatory Affairs

[6] *Id*. at page 7.